

Message Text

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S E C R E T CAIRO 9135 SECTION 2 OF 2

5. AT PRESENT, MAJOR PORTION OF EXPENDITURE FOR MILITARY PURPOSES IS REPORTEDLY BEING FINANCED BY OTHER ARAB STATES ON GRANT BASIS. IF IT CAN BE ASSUMED THAT FUND WILL REPLACE THESE CONTRIBUTIONS IN WHOLE OR IN PART, NET EFFECT WILL BE REDUCED ACCORDINGLY. AT SAME TIME, ASSISTANCE OF SUCH MAGNITUDE MIGHT PROMPT USSR TO BECOME MORE DEMANDING IN TERMS OF LARGE DEBTS ASSUMED TO EXIST AS RESULT OF PREVIOUS MILITARY (AND ECONOMIC) LOANS. IF PART OF FUND WERE AVAILABLE FOR OTHER THAN DEFENSE PURPOSES, EFFECT WOULD DEPEND ON EXTENT TOWHICH IT COULD BE USED FOR PROGRAM AND NOT PROJECT SUPPORT. EGYPT'S MOST URGENT ECONOMIC PROBLEM IS FINANCING HUGE AND GROWING BOP DEFICIT. NEED TO IMPORT VAST AMOUNTS OF INCREASINGLY EXPENSIVE COMMODITIES TO FEED BURGEONING POPULATION, WHILE AT SAME TIME BRINGING IN MATERIALS REQUIRED FOR DEVELOPMENT AND EXPANSION OF LIMPING ECONOMY HAVE CREATED SERIOUS FINANCIAL SITUATION. CURRENT PROJECTIONS FOR 1975 INTERIM PLAN SHOW TRADE DEFICIT OF LE 1.6 BILLION, TO BE FINANCED ALMOST TOTALLY FROM ABROAD. THIS FIGURE PROVIDES INDICATION OF EGYPT'S PERCEPTION OF ITS NEEDS. SINCE MAJORITY OF AID ALREADY COMMITTED, OR ANNOUNCED, IS TIED TO PROJECTS, FINANCING THAT GAP WILL BE NUMBER ONE PRIORITY.

6. MEASURED IN ABOVE CONTEXT, AND PARTICULARLY AGAINST EGYPT'S ENORMOUS NEEDS AND ABSORPTIVE CAPACITY, RABAT FUNDS DOES NOT APPEAR AS LARGE AS ONE MIGHT IMAGINE. GOE SPENDS OVER \$1 BILLION PER YEAR IN SUBSIDIES TO KEEP
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DOWN LOCAL PRICES OF ESSENTIAL CONSUMER COMMODITIES,

A POLITICAL NECESSITY IN THE SHORT RUN AT LEAST, AND MAJOR FACTOR IN EFFORTS TO ISOLATE POPULATION FROM EFFECTS OF INTERNATIONAL INFLATION.

7. IN LARGE MEASURE, RATIONALE FOR ECONOMIC ASSISTANCE FROM THE US, AS WELL AS FROM OTHER FREE-WORLD COUNTRIES AND INTERNATIONAL ORGANIZATIONS, IS RECOGNITION OF MAJOR POLITICAL SIGNIFICANCE OF EGYPT'S TURN AWAY FROM PRIMARY FOCUS ON BELIGERENCY TO A GREATER CONCENTRATION ON ECONOMIC DEVELOPMENT. THE \$250 MILLION IN AID FUNDS REQUESTED OF CONGRESS, IF APPLIED EFFECTIVELY, COULD PROVIDE AN IMPORTANT STIMULUS TO EGYPTIAN ECONOMIC DEVELOPMENT, PARTICULARLY IF AVAILABLE IN EARLY STAGES OF THE DEVELOPMENT EFFORT, BUT WOULD ALSO HAVE A POLITICAL AND PSYCHOLOGICAL VALUE IN TERMS OF CREDIBILITY OF US INTEREST AND INTENTION THAT GREATLY EXCEED THE DOLLAR AMOUNT. IN THE SAME SENSE IBRD HAS CHANGED MAJORITY OF ITS LOANS TO EGYPT FROM SOFT TO HARD, IN EFFORT TO IMPROVE CREDIT WORTHINESS AT SAME TIME AS ASSISTING ECONOMY.

8. IN TERMS OF OUR OBJECTIVES IN THE MIDDLE EAST IN GENERAL, AND IN EGYPT IN PARTICULAR EXISTENCE OF RABAT FUND DOES NOT APPRECIABLY ALTER EITHER ECONOMIC OR POLITICAL SITUATION. USE OF FUND HAS POSSIBLE POLITICAL OVERTONES, BUT RATIONALE BEHIND INITIAL US DECISION TO OFFER ASSISTANCE TO EGYPT IS STILL TOTALLY VALID.

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